



County of Los Angeles
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March 10, 2005

To: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

WASHINGTON, D.C. UPDATE

FEDERAL FISCAL YEAR (FFY) 2006 BUDGET RESOLUTION

On March 9, 2005, the House Budget Committee approved its version of the Federal Fiscal Year (FFY) 2006 budget resolution, while the Senate Budget Committee approved its version today. The budget resolution sets spending and revenue targets for FFYs 2006 through 2010 to guide Congressional action on fiscal legislation. Both versions, which were approved along party lines, call for major cuts in domestic spending and would result in major cuts in Federal aid to state and local governments. As explained in greater detail below, the House version provides for even deeper cuts than those proposed in the President's FFY 2006 budget request.

Mandatory Spending

Both versions include budget reconciliation instructions to committees to report legislation to cut mandatory (entitlement) spending. The House version includes reconciliation instructions to cut mandatory spending by \$68.7 billion over the next five years, compared to \$32 billion in the Senate version and \$26 billion under the President's proposed budget according to the Congressional Budget Office's (CBO) preliminary estimate.

The House Energy and Commerce Committee, which has jurisdiction over Medicaid, is directed to cut mandatory spending by \$20.7 billion and the Ways and Means Committee, which has jurisdiction over low-income entitlement programs, including

Temporary Assistance for Needy Families, foster care, and child support enforcement, is directed to cut \$18.7 billion over five years. The Senate version directs the Senate Finance Committee, which has jurisdiction over Medicaid as well as other low-income entitlement programs, to cut mandatory spending by \$15 billion over five years.

Medicaid

These budget reconciliation instructions to cut mandatory spending significantly increase the risk of legislation being enacted that would cut Medicaid, which is the only major entitlement program targeted for major cuts by the Administration and Budget Committee chairs in both houses. Under Congressional budget rules, a budget reconciliation bill cannot be filibustered, which means that only a simple majority, not 60 votes, would be needed to pass a budget reconciliation bill in the Senate. Therefore, at least six Republican votes would be required to ensure the defeat of a budget reconciliation bill which cuts Medicaid. It is noteworthy that the last time budget reconciliation instructions were included in a budget resolution was in 1997 when Medicaid disproportionate share hospital (DSH) allotments to states were cut.

As reported in the February 8, 2005 Washington, D.C. update, the County's Department of Health Services estimates that the President's proposal to limit Medicaid payments to government providers to no more than the cost of providing services alone could result in a Medicaid loss of \$240 million a year to the Department. The County also would be hurt by the Administration's proposals to curb the use of intergovernmental transfers and targeted case management services and to cap Medicaid payments to states to reimburse administrative costs.

Discretionary Spending

Besides cutting mandatory spending, both House and Senate budget resolutions include a total of \$843 billion in FFY 2006 for discretionary spending which is about the same amount as requested by the President. Both versions also assume that non-defense discretionary spending would be frozen at about \$404 billion, while defense spending would increase by more than four percent. The funding levels for individual discretionary programs will be set later through the appropriations process. Given that the total amount of funding for non-defense programs would remain the same, any funding increase for programs of importance to the County, such as the State Criminal Alien Assistance Program, would have to be offset by cuts in other programs.

Status

Floor action on the FFY 2006 budget resolutions in both houses is scheduled for next week before Congress leaves for their Easter recess. It is expected that Democrats, and some moderate Republicans, will offer floor amendments to increase spending

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levels and to strike budget reconciliation instructions to cut mandatory spending, such as Medicaid. The prospects for striking such budget reconciliation instructions are better in the Senate where 11 Republicans are co-sponsors of S. 338 (Smith, R-OR), a bipartisan bill which would establish a bipartisan commission on Medicaid as an alternative to enacting legislation to cut Medicaid.

We will continue to keep you advised.

DEJ:GK
MAL:MT:RM:ib

c: Executive Officer, Board of Supervisors
County Counsel
All Department Heads
Legislative Strategist